

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55153; File No. SR-Phlx-2006-74)

January 23, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change as Modified by Amendment Nos. 1 and 2 Thereto, Relating to a Pilot Program to Quote Options in Penny Increments

I. Introduction

On November 13, 2006, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change to amend various Exchange rules to permit certain option classes to be quoted in pennies on a pilot basis. On November 22, 2006, the Exchange filed Amendment No. 1 to the proposed rule change. The Exchange filed Amendment No. 2 to the proposed rule change on December 5, 2006. The proposed rule change, as modified by Amendment Nos. 1 and 2, was published for comment in the Federal Register on December 13, 2006.³ The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change as modified by Amendment Nos. 1 and 2.

II. Description of the Proposal

A. Scope of the Penny Pilot Program

Phlx proposes to amend its rules to permit certain option classes to be quoted in pennies during a six-month pilot (“Penny Pilot Program”), which would commence on January 26, 2007.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 54886 (December 6, 2006), 71 FR 74979.

Specifically, proposed Phlx Rule 1034(a)(i)(B) would set forth the parameters of the Penny Pilot Program.

Currently, all six options exchanges, including Phlx, quote options in nickel and dime increments. The minimum price variation for quotations in options series that are quoted at less than \$3 per contract is \$0.05 and the minimum price variation for quotations in options series that are quoted at \$3 per contract or greater is \$0.10. Under the Penny Pilot Program, beginning on January 26, 2007, market participants would be able to begin quoting in penny increments in certain series of option classes.

The Penny Pilot Program would include the following thirteen options classes: Ishares Russell 2000 (IWM); NASDAQ-100 Index Tracking Stock (QQQQ); SemiConductor Holders Trust (SMH); General Electric Company (GE); Advanced Micro Devices, Inc. (AMD), (Microsoft Corporation (MSFT); Intel Corporation (INTC); Caterpillar, Inc. (CAT); Whole Foods Market, Inc. (WFMI); Texas Instruments, Inc. (TXN); Flextronics International Ltd. (FLEX); Sun Microsystems, Inc. (SUNW); and Agilent Technologies, Inc. (A). The Exchange would communicate the list of options to be included in the Penny Pilot Program to its membership via Exchange circular.

The minimum price variation for all classes included in the Penny Pilot Program, except for the QQQQs, would be \$0.01 for all quotations in option series that are quoted at less than \$3 per contract and \$0.05 for all quotations in option series that are quoted at \$3 per contract or greater. The QQQQs would be quoted in \$0.01 increments for all options series.

Proposed Phlx Rule 1034(a)(i)(C) would require the Exchange to prepare and submit a report to the Commission during the fourth month of the pilot, which would be composed of data

